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DEPARTMENT OF DEFENSE

SUMMARY OF
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PARTICIPATION ON MANAGEMENT ADVISORY TEAMS
AND SPECIAL AUDIT/EVALUATION EFFORTS

JANUARY, FEBRUARY, AND MARCH 2002

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PART I

REPORT SUMMARIES

ACQUISITION PROGRAM

REPORT NO. D-2002-036. Acquisition of the Naval Fires Control System. The primary objective was to evaluate the overall management of the Naval Fires Control System (NFCS). Because the program was in the engineering and manufacturing development phase, we determined whether management was cost-effectively readying the program for the production phase of the acquisition process.

Overall, the NFCS program warrants attention in the areas of development and acquisition, earned value management, operational requirements, and test and evaluation planning before it enters the full-rate production phase of the acquisition process.

o The NFCS Program Office efforts to develop and acquire the NFCS Phase II duplicated the existing and planned functionality of the Army Advanced Field Artillery Tactical Data System (AFATDS). As a result, the Navy, including the Marine Corps, planned to obligate $71.2 million in research, development, test and evaluation funding from FY 2002 through FY 2007 for NFCS Phase II requirements that duplicate functions of AFATDS on amphibious ships.

o The earned value management system (EVMS) for the NFCS did not provide the program office with information needed to effectively manage the program's cost and schedule data. Without a certified EVMS that accurately shows contractor cost and schedule performance data, the Navy has increased the risk of the program being adversely affected by undisclosed cost and schedule overruns.

o The NFCS did not have an updated and comprehensive operational requirements document (ORD) and test and evaluation master plan (TEMP) that included user objectives and minimum acceptable requirements for NFCS Phase I Plus and the functionality of NFCS Phase II. Without an updated and comprehensive ORD and TEMP, the Navy cannot plan for test resources required to test NFCS, thus impacting the NFCS schedule, cost, and performance, and cannot ensure that the NFCS meets the minimum required system capabilities or characteristics that are considered essential for successful mission accomplishment.

REPORT NO. D-2002-046. Acquisition Management of the Defense Counterintelligence Information System. The overall objective was to evaluate the acquisition management of the System. Specifically, we determined whether the information technology system was being cost-effectively acquired, monitored, tested, secured, and prepared for deployment and system life-cycle support in accordance with DoD and other applicable guidance.

The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C^3I]) and the Defense Intelligence Agency had not adequately managed risk in acquiring the Defense Counterintelligence Information System. As a result, the program was discontinued. Because a business need still exists for the automated information system, the Director of Counterintelligence, OASD(C^3I) has restructured the program and plans to invest more than $45 million between FY 2002 and FY 2007 for development, deployment, and operation and maintenance. Further, the Director intends to follow a disciplined acquisition strategy by avoiding and reducing risks that caused deployment delays and users dissatisfaction with the prior acquisition.

REPORT NO. D-2002-054. Reporting of Cost Growth of Major Defense Acquisition Programs. The objective was to evaluate the major defense acquisition programs (MDAP) cost growth for tracking performance under GPRA. Specifically, we determined whether DoD met the GPRA performance goal established for MDAP cost growth.

In FY 2000, cost growth for MDAPs exceeded the 1 percent goal established under the GPRA Performance Goal 2.4, Improve Acquisition. DoD accurately reported the 2.9 percent cost growth increase in the GPRA Performance Report for FY 2000.

CONSTRUCTION AND INSTALLATION SUPPORT

REPORT NO. D-2002-048. General and Flag Officer Quarters at Fort Shafter, Hawaii; and Fort Mcpherson, Georgia. This is one in a series of reports about general and flag officer quarters (GFOQ) maintenance and repair costs. Our overall objective was to determine the adequacy of management controls for review and authorization of GFOQ costs. Specifically, this report focuses on annual operations and maintenance costs for the GFOQs managed by Fort Shafter, Hawaii, and Fort McPherson, Georgia.

Fort Shafter management controls over GFOQ maintenance and repair costs were adequate. The housing office at Fort Shafter complied with Army guidance and effectively managed the three GFOQs reviewed. We identified no cost recording errors for the three GFOQs reviewed. Fort McPherson management controls over GFOQ maintenance and repair costs, while adequate, were not fully implemented. Specifically, guidance concerning the timely production of reports was not followed and necessary reconciliations were not performed. The Fort McPherson family housing office had cost recording errors on all nine GFOQs reviewed and exceeded the $25,000 statutory limitation on annual maintenance

and repair costs by $1,824 and $2,056, respectively, for two GFOQs in FY 2000. The Fort McPherson reports on GFOQ costs were inaccurate and potential Antideficiency Act violations occurred.

CONTRACTING OVERSIGHT

REPORT NO. D-2002-043. Defense Reutilization And Marketing Service Public/Private Competition. The audit was performed in response to a request from Congressman John M. McHugh of New York. He requested we review a constituent's allegations relating to OMB Circular A-76 public/private competition to provide logistics services at 10 Defense Reutilization and Marketing Service (DRMS) offices. The constituent alleged that the selection process was biased and designed to support the award of a contract to a specific contractor, because the contractor's program director was a close friend of the DRMS Commander. The constituent also alleged that the contractor was not sufficiently staffed to perform the required logistics functions and intended to default on the contract. The objective was to determine the merit of the allegations.

We did not substantiate the allegation that the contract award was biased. The DRMS Commander knew the contractor's program director, but they were not friends, and the Commander did not participate in the award process. The Commander, Defense Logistics Support Command made the award decision. The allegation that the contractor was not sufficiently staffed to perform the required logistics functions also was not substantiated. As of September 2001, performance levels were being met, and there were no indications that the contractor would default on its obligations.

REPORT NO. D-2002-059. Results of the Defense Logistics Agency Strategic Supplier Alliance With Honeywell International, Incorporated. The objective was to report the results of the strategic supplier alliance between DLA and Honeywell. Specific objectives focused on wait time savings, inventory reductions, and potential cost savings associated with shifting from the current method of support to a more tailored approach.

The strategic supplier alliance resulted in three primary contracts for sole-source Honeywell items (catalog, build-to-order, and replenishment). The contracts were designed to address the nature of the demand for different customers and the supplier economics of responding to those demands. As of September 2001, the 3 contracts covered 594 items with an annual demand of over $26 million. The contracts provide a significantly more efficient and economical procurement and logistics support strategy for sole-source spare parts than earlier commercial or noncommercial order strategies. As a result, DLA has been able to improve wait time, reduce inventory, and lower prices for its customers. Inventory has already been reduced by $9.8 million for the first 221 contract line items on the catalog contract. Customer prices will be reduced by $59 million for the first 594 items placed on the 3 alliance contracts over the 12-year period of performance (catalog 322 items-$50.7 million,

build-to-order 256 items-$4.2 million, and replenishment 16 items-$4.1 million). Meanwhile, both DLA and Honeywell will be able to realize procurement administrative efficiencies from the long-term contracts, and Honeywell will increase its return on investment by providing additional services and earn higher profits if costs are reduced. As of December 2001, over 1,000 parts had been priced under the strategic supplier alliance, and the goal for 2002 is to price an additional 1,500 to 2,000 parts.

The Director, DLA and Director for Acquisition Initiatives are commended for their efforts in organizing the rapid improvement team that resulted in the strategic supplier alliance with Honeywell. In addition, the DLA contracting officers and representatives on the DoD pricing team from both DLA and the DCAA are commended for their efforts and assistance, which have resulted in shortened wait times, reduced inventory, and lower prices for DoD.

Honeywell management is commended for its cooperation in providing the DoD pricing team access to cost data for both commercial and noncommercial sole-source items. Honeywell management also allowed the cost-based pricing process to further improve with "alpha or one-pass pricing." The one-pass pricing process allows DoD and Honeywell pricing teams to concurrently reach agreement on cost elements in real time and provides a unique opportunity for DoD to directly impact judgmental decisions made when pricing items. Honeywell management's agreement to use the one-pass pricing process dramatically improved the level of trust and cooperation between both parties.

REPORT NO. D-2002-061. Pilot Program to Treat Procurements of Certain Commercial Services as Commercial Items. The National Defense Authorization Act for FY 2000, Public Law 106-65 (the Act), Section 814, "Pilot Program for Commercial Services," permits the Secretary of Defense to initiate the pilot program. The Act requires the Secretary of Defense, after the third full fiscal year of the pilot program, to report on the impact of the pilot program on the prices paid for commercial services covered by the program; the quality and timeliness of services provided; and the extent of competition for the contracts. The overall objective of the audit was to review progress on implementation of the pilot program established by the Act.

Only two DoD Components, the Army and Washington Headquarters Services, are participating in the pilot program. The two participating agencies were in the program planning stages and had not awarded contracts under the pilot program. As a result of the low participation rate, Congress may not obtain the expected information from the pilot program.

REPORT NO. D-2002-065. Summary of DoD Travel Card Program Audit Coverage. In September 2001, the Ranking Member, U.S. Senate, Committee on Finance requested details on audit reports on the use of credit cards in DoD. We prepared this summary report to provide a central repository of audit findings on the DoD travel card program and to identify misuse trends and problems. The objective of the report was to summarize audit coverage of the DoD travel card program.

From FY 1999 through FY 2001, DoD audit organizations issued 31 reports on the DoD travel card program. The Air Force Audit Agency issued 27 reports, the Assistant Secretary of the Army (Financial Management and Comptroller) Internal Review Office issued 2 reports, and the Defense Intelligence Agency, OIG issued 2 reports. All 31 reports addressed one or more of the following systemic issues: management oversight (27 reports); card use (23 reports); account reconciliation (16 reports); and training (16 reports). Because of its dollar magnitude and mandated use, the DoD travel card program requires continued management emphasis, oversight, and improvement by DoD. Independent internal audits should continue to be an integral component of management controls.

Within the last year, DoD officials have been implementing policies and procedures to improve oversight of the travel card program.

REPORT NO. D-2002-066. Buy American Act Issues On Procurements Of Military Clothing. We conducted the audit in response to a tasking in the House Committee on Armed Services Report on the Floyd D. Spence National Defense Authorization Act for FY 2001. The Committee Report expressed concern over the number of violations of the Buy American Act identified in IG, DoD, Report No. 99-023, "Procurement of Military Clothing and Related Items by Military Organizations." The objectives were to determine whether contracting officers complied with the Buy American Act and the Berry Amendment when they procured military clothing and related items and to evaluate DoD actions taken after the 1998 audit to improve compliance with the Buy American Act.

DoD contracting officers continued to violate the Buy American Act on FY 1998 and FY 1999 procurements of military clothing and related items. Of 698 contracts reviewed, 416 (60 percent) did not include the appropriate contract clause to implement the Buy American Act or the Berry Amendment. Contracting officers at 13 military installations procured military clothing and related items that were manufactured or produced abroad without appropriately determining whether items manufactured in the U.S. or a qualifying country were available, as required by the Buy American Act or items manufactured in the U.S. were available, as required by the Berry Amendment. As a result, contracting officers awarded 28 contracts to contractors that supplied $593,004 worth of items manufactured abroad that may have been available from contractors supplying items manufactured in the U.S. The noncompliance with the Berry Amendment resulted in three potential violations of the Antideficiency Act because the contracts were either funded directly with appropriated funds, or working capital funds that were reimbursed with appropriated funds, which are not available for the procurement of foreign-made items. DoD actions taken after the prior audit would only have affected contracts awarded in FY 1999. We saw no significant reductions in violations of Buy American Act and Berry Amendment procedures for those contracting actions.

ENVIRONMENT

REPORT NO. D2002-051. Summary Report on the Joint Audit of DoD Wastewater Treatment Systems. The Deputy Under Secretary of Defense (Installations and Environment) requested that the IG, DoD; Army Audit Agency; Naval Audit Service; and Air Force Audit Agency perform a joint audit to determine whether the Services and DLA were reporting correct Clean Water Act information and how well they were managing their resources for wastewater treatment systems. The objective was to determine whether DoD was accurately and consistently reporting the number of permits and permitted systems covered by the Clean Water Act and the number of systems in compliance with the Act. In addition, the joint audit assessed how DoD was managing its resources for wastewater treatment systems.

The Services and DLA adequately managed resources for wastewater treatment systems. The Air Force, Marine Corps, and DLA consistently and accurately reported the number of wastewater permits and permitted systems covered by the Clean Water Act and the number of systems in compliance with the Act. The Army and Navy did not accurately report the number of wastewater permits, permitted systems, and the number of systems in compliance. As a result, the DUSD (Installations and Environment) does not have an accurate picture of Army and Navy compliance with the Clean Water Act, and DoD reports to Congress may not be accurate.

During the joint audit, action was initiated to revise the measure of merit to make informed resource decisions regarding DoD compliance with the Clean Water Act. Implementation of the Clean Water Act measure of merit and reporting requirements is planned by early 2003.

FINANCE AND ACCOUNTING

REPORT NO. D-2002-038. Financial Reporting for the Other Defense Organizations-General Funds at the Defense Finance and Accounting Service San Antonio. The objective was to determine the accuracy and completeness of the data that the accounting offices submitted to DFAS Indianapolis (Sustaining Forces) for inclusion in the FY 2001 Other Defense Organizations Financial Statements. Specifically, we looked at the abnormal balances reported in trial balances prepared by DFAS San Antonio.

Of the $643.2 million in net abnormal balances reported for Department 97 funds sub-allocated to the Army, trial balances prepared from accounting records that DFAS San Antonio maintained reported $334.3 million, or 52 percent. From the trial balances prepared by DFAS San Antonio, we examined two general ledger accounts, Funds Disbursed, and Travel and

Transportation of Persons Expense. Those two accounts represented 93.5 percent of the abnormal balances. We determined that: the Standard Finance System, as configured to process payroll transactions, did not post matching debits and credits to the trial balances maintained for individual Army medical sites; individual Army medical sites adjusted current year expense accounts to reduce expenses recorded in previous years; and DFAS San Antonio did not have adequate procedures in place to identify, research, and correct abnormal balances.

Until the Standard Finance System, a legacy accounting system, is consolidated into the Defense Joint Accounting System in 2004, the individual balances reported in the Funds Disbursed account for Army medical sites will be incorrect. However, the net abnormal balances in the Funds Disbursed account should not adversely impact the routine operations of the Army medical sites. In July 2001, DFAS San Antonio changed the process for recording travel expenses, which should reduce the possibility of reporting abnormal balances.

REPORT NO. D-2002-040. Promptness of FY 2002 Second Quarter DoD Payments to the U.S. Treasury for District of Columbia Water and Sewer Services. This report covers FY 2002 second quarter payments and is one in a series of reports discussing the promptness and completeness of DoD payments to the U.S. Treasury for District of Columbia water and sewer services. Public Law 106-554, the Consolidated Appropriations Act of 2001, requires the inspector general of each Federal agency to audit the agency's promptness in paying the District of Columbia for water and sewer services.

DoD Components instructed DFAS to make second quarter FY 2002 payments to the U.S. Treasury for District of Columbia water and sewer services by January 2, 2002. DFAS initiated action to make payments on the instructed date; however, the U.S. Treasury withdrew $1 million available to Army and Defense Components on the same day to pay the District of Columbia. The U.S. Treasury did not withdraw payments from the Navy and Air Force Components because of credit balances from prior overpayments, or from Arlington National Cemetery's appropriation because of Public Law 107-20. Army officials dispute the appropriateness of $77,000 that the U.S. Treasury withdrew for second quarter FY 2002 water and sewer services for Fort Myer, because Fort Myer discontinued receiving water services from the District of Columbia in 1999.

REPORT NO. D-2002-041. Financial Reporting for the Defense Logistics Agency-General Funds at Defense Finance and Accounting Service Columbus. Our objective was to determine the accuracy and completeness of the financial data that DFAS Columbus submitted to DFAS Indianapolis (Sustaining Forces) for inclusion in the FY 2001 Other Defense Organizations financial statements. Specifically, we looked at the abnormal balances reported in trial balances prepared by DFAS Columbus.

The March 31, 2001, trial balances prepared from accounting records maintained by DFAS Columbus included $23.9 million in net abnormal balances for the DLA-General Funds. The abnormal balances were not explained in required footnotes. The review of trial balances prepared by DFAS Columbus identified the following deficiencies: the Defense Business Management System (DBMS), a legacy accounting system, significantly limited the ability of accounting personnel to prepare accurate proprietary trial balances, management controls over

the interim processes that DFAS Columbus used to overcome accounting system limitations were not adequate, and the allocations of undistributed collections to Accounts Receivable and undistributed disbursements to Accounts Payable were not reasonable or consistent.

The limitations of DBMS have been long-standing and well documented. Unresolved system deficiencies continue to impede DoD's ability to receive a favorable audit opinion on annual financial statements. Until DBMS is replaced, account balances will continue to be incorrect and unreliable on the FY 2001, and future financial statements prepared for the Other Defense Organizations. However, the abnormal balances discussed in this report did not have a material effect on the financial statements of Other Defense Organizations-General Funds, nor did they adversely impact the routine operations at DFAS Columbus.

REPORT NO. D-2002-045. Abnormal Inventory Balances for the Navy Working Capital Fund. The objective was to determine whether the Naval Inventory Control Point (ICP) (Philadelphia and Mechanicsburg) reconciled general ledger accounts for Inventory On-Hand and Inventory Work-In-Process with the storage activities' logistic records; and whether research was performed to correct differences and abnormal balances.

The ICP reported $438 million of abnormal balances in the March 31, 2001, financial records for the Mechanicsburg and Philadelphia sites. The abnormal balances were recorded in Inventory On-Hand, and Inventory Work-In-Process. During the audit, personnel at the Mechanicsburg and Philadelphia sites took actions to correct $184.6 million of abnormal balances for both the Inventory On-Hand and Inventory Work-In-Process general ledger accounts. The remaining $253.4 million in abnormal balances required extensive research to determine when and how the abnormal balances occurred, and therefore, will need to be corrected at a later date. However, until improvements in the reconciliation process and internal controls are made, the problems will recur and will adversely affect management decisions. In addition, note 9A to the FY 2001 financial statements prepared for the Navy Working Capital Funds could be misstated.

REPORT NO. D-2002-070. DoD Payroll Withholding Data for FY 2000. This is the second of a series of reports on payroll withholding for FY 2000. Our objective was to determine whether the retirement, health, and life insurance withholdings and employee data that DoD submitted were accurate and supported, and to determine the annualized dollar magnitude based on the projectable sample. We also assessed compliance with laws, regulations, and procedures relative to payroll withholding data that DoD submitted.

The personnel offices of the Military Departments and Defense agencies did not have adequate controls to support the accuracy of the payroll amounts withheld. Specifically, the Military Departments and Defense agency personnel offices did not ensure: the accuracy of payroll withholding documents that support withholdings and deductions authorized; retention of files, documents, and data for supporting payroll withholding; or transmission of payroll election data to DFAS in an adequate and timely manner. As a result of the lack of controls, payroll withholding was statistically estimated to be $68 million different than indicated in official personnel files. The statistically projected error rate from the sample is 9.29 percent, which is a repeat finding from a prior audit report. The statistically projected number of

records in error (had one or more deficiencies in gross pay or withholding) is 1.59 million out of 17.1 million payroll records in the Defense Civilian Payroll System database (a record is a civilian employee for one pay period).

REPORT NO. D-2002-071. DoD Management of the North Atlantic Treaty Organization Security Investment Program. Our overall objective was to evaluate DoD oversight and management of NSIP. Specific objectives were to determine how NSIP requirements were identified, contracted, revalidated, and closed out and to determine whether the DoD executive agent adequately accounted for the DoD portion of NSIP funds.

DoD Components needed to improve financial management of recoupments due on prefinanced projects, to report contingent liabilities incurred when NATO authorizes new NSIP projects, and to follow closeout procedures for NSIP projects.

o DoD did not aggressively pursue recoupments from NSIP projects that were prefinanced by the United States. As a result, DoD had not collected at least $38.6 million and the United States was also losing interest on the uncollected amount. In addition, DoD overestimated the amount of recoupments in budgeting documents, which negatively impacted NSIP funding.

o DoD did not report contingent liabilities for U.S. financial commitments to NSIP projects on DoD financial statements. As a result, the contingent liabilities disclosed on DoD financial statements were understated by about $396.8 million

o The Atlantic Division, Naval Facilities Engineering Command, did not provide timely requests to the Defense Advisor to have NATO perform Joint Formal Acceptance Inspections and audits of U.S.-managed NSIP projects which delay the closeout of NSIP projects. By delaying the closeout of completed NSIP projects, the U.S. has not fully discharged its responsibilities to NATO.

REPORT NO. D-2002-073. Ending Balance Adjustments to General Ledger Data for the Army General Fund. Our overall objective was to determine whether DFAS IN-SF consistently and accurately compiled financial data from field activities and other sources for the principal financial statements of the Army General Fund. The specific objective of this audit was to determine the source for the ending balance adjustments made to the Army general ledger data by DFAS IN-SF.

Since 1991, DFAS IN-SF has made large, unsupported adjustments to correct discrepancies between status of appropriations data and general ledger data as part of its compilation of Army General Fund financial statements. These ending balance adjustments have ranged from $127.8 billion to $511.8 billion annually for FYs 1996 through 2000. The use of large unsupported adjustments in preparing Army financial statements adversely affected the reliability of the DoD FY 2001 Agency-Wide Financial Statements and will affect both Army and DoD Agency-Wide financial statements in the future.

REPORT NO. D-2002-075. Controls Over the DoD Purchase Card Program. Our objective was to evaluate the issuance and use of purchase cards and the controls over the processing of purchase card payments. We also reviewed the management control program as it related to the purchase card program. During our review, we examined the controls for issuing and using 231,856 purchase cards. We also selectively reviewed the controls over the processing of more than 10.6 million purchases amounting to $6.1 billion in FY 2001. In addition, we reviewed over 12,000 convenience checks totaling in excess of $27 million.

The DoD Purchase Card Program Management Office needed to improve oversight and management controls over the purchase cards and purchases. We identified numerous areas where improved controls were needed such as: assignment of approving officials, setting of spending limits, and management of convenience checks. These conditions did not necessarily mean that fraud, waste, or mismanagement of purchase cards or checks had occurred. Although identified misuse was small in comparison to the volume of annual purchases, controls were not robust and only through more proactive oversight can the DoD ensure the integrity of the program.

REPORT NO. D-2002-076. Funding Invoices to Expedite the Closure of Contracts Before Transitioning to a New DoD Payment System. The overall objective was to evaluate actions to close out completed contracts and transition them from MOCAS to the Defense Procurement Payment System. We focused this part of the audit on the policy and procedures for closing out contracts that require current-year funds because the original funding appropriation had been canceled.

DFAS and DoD Components did not take sufficient actions to fund payments on outstanding contract invoices that would permit closing contracts. DFAS Columbus was not notifying DoD Components timely that funding was needed to close contracts where original funding had been canceled. Also, DoD Components were not providing timely current-year funding to DFAS. MOCAS records showed that 3,954 contracts may require approximately $97 million in current-year funding to pay invoices and close the contracts. Two of the invoices have required funding since 1993. Unless improvements are made, DoD will have a large number of contracts requiring current-year funds when it begins the transfer of MOCAS data to the new payment system. This could adversely affect its orderly transition. Additionally, the DoD incurred unnecessary costs because of the untimely payments for those invoices awaiting funds, to include approximately $215,429 in prompt payment interest penalties on invoices we reviewed.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2002-039. Automation of the DoD Export License Application Review Process. Public Law 106-65, National Defense Authorization Act for Fiscal Year 2000, section 1402, "Annual Report on Transfers of Militarily Sensitive Technology to Countries

and Entities of Concern," requires that the IG of the Departments of Commerce, Defense, Energy, and State, in consultation with the Director, CIA, and the Director, FBI, conduct annual interagency reviews of the transfer of militarily sensitive technologies to countries and entities of concern. The overall objective was to determine whether Federal automation programs supporting the export license and review process could be used to establish a common electronic interface creating an automated Federal export licensing system in accordance with Federal policies and regulations. This report addresses the DoD portion of automating the export license review process for dual-use items and munitions items. Specifically, we reviewed the export license application process; the review processes of the Military Departments and other DoD Component commands; and the functionality of existing DoD automated systems.

The DoD export license application review process is paper driven and requires export license applications and supporting documentation to be repeatedly copied, reviewed, and shipped from and to numerous locations. As a result, the Military Departments and other DoD Components have implemented individual automated systems to reduce the paperwork burden and increase the efficiency of the export license dissemination and review process, which may prevent the U.S. Export Systems Interagency Program Management Office from fully achieving its goal to provide Federal export licensing authorities an interagency automated system. The interagency report was issued as D-2002-074. The DoD report is included verbatim in Appendix D of the interagency report.

REPORT NO. D-2002-044. DoD Financial and Feeder Systems Compliance Process. Our objective was to determine the effectiveness of the DoD Financial and Feeder Systems Compliance Process to address compliance with applicable Federal financial management systems requirements. Specifically, we determined whether the Process would achieve compliance of both individual and integrated systems.

The Process had not been fully implemented throughout DoD. The Air Force and DFAS had completed substantial work in implementing their own Year 2000-like compliance processes. However, the Army, Navy, Air Force, DFAS, DLA, and 12 Other Defense Organizations needed to do more work toward implementing the Process. The Army, Navy, Air Force, DFAS, and DLA: had started but had not completed data mapping, and had not completed a critical inventory list. The Army, Navy, Air Force, and DFAS had issued guidance. We contacted nine Other Defense Organizations outside the DoD Intelligence community and three inside the DoD Intelligence community. Of the nine Other Defense Organizations, personnel from four were not aware of the Process, and five stated that their agency was aware of the memo, but only one stated that the memo had been implemented. This occurred because the Under Secretary of Defense (Comptroller) did not have sufficient authority over the Military Departments and Defense Agencies to effectively implement the DoD Compliance Process. As a result, progress toward attaining compliance with Federal and DoD financial management systems requirements had been slow, although new legislation and DoD initiatives are intended to provide more effective management oversight in the future.

REPORT NO. D-2002-056. Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System. This is the second in a series of audit reports addressing the controls over the Computerized Accounts Payable System (CAPS). The objective was to evaluate the controls associated with making payments using the System and progress in transitioning to the Defense Procurement Payment System. This report focuses on the controls associated with making vendor payments.

DFAS field sites did not implement effective and consistent internal controls to detect and correct improperly supported or erroneous payments. As a result, DFAS made at least $13.2 million in duplicate payments and made other vendor payments that did not comply with 5 Code of Federal Regulations Part 1315. Also, access to the two versions of the System was not adequately controlled and monitored. System access controls did not properly segregate duties, access to payment functions was not consistently assigned to payment technicians at DFAS field sites, and remote users were given inappropriate access to CAPS for Windows. As a result, the system was susceptible to improper and unauthorized use and individual users could circumvent the requirements of 5 Code of Federal Regulations Part 1315. Finally, DFAS field sites frequently made improper payments and other payments that were not fully supported by proper documents. From May 1 through July 31, 2000, we estimate 181,406 of the 236,940 vendor payments made by DFAS field sites for the Army and Defense agencies lacked at least one element of support required by 5 Code of Federal Regulations Part 1315. We also estimate that 30,584 payments were in the wrong amounts. As a result, DoD managers assumed an increased risk that payments were not being made in compliance with the Prompt Payment Act. In addition, resources were diverted from their intended use due to efforts to correct duplicate payments and other improper payments.

REPORT NO. D-2002-062. Air Force Web Site Administration, Policies, and Practices. This report is one in a series that address Internet access, practices, and policies. Our objective was to evaluate Air Force policies and practices for Web site administration and oversight. Specifically, we reviewed how the Air Force hosts official Web sites and how it registers and monitors Web sites for compliance with policy and safeguards sensitive information.

The Air Force had not developed adequate plans to annually review its Web sites. In addition, the listing of Air Force publicly accessible Web sites recorded in Air Force Link did not match the data reported in Government Information Locator Service. As a result, the Air Force had 140 publicly accessible Web sites that included potentially inappropriate information. Further, the process for the removal of sensitive information was not reliable. In positive actions, the Air Force developed a new training program for personnel working on Web sites, and oversight of Air Force Web sites has improved with the establishment of the Air Force Web Risk Assessment Cell.

LOGISTICS

REPORT NO. D-2002-057. Effectiveness of the Joint Total Asset Visibility Program. This is the second of two audit reports addressing total asset visibility. The overall objective was to evaluate the effectiveness of the Joint Total Asset Visibility (JTAV) Program. Specifically, the audit evaluated whether the JTAV Program was meeting asset visibility requirements of the unified commands.

The JTAV Program was not fully developed and funded to provide commanders in chief and joint task force commanders with the total asset visibility required. As a result, commanders in chief and joint task force commanders did not have access through the program to all required data on the location, movement, status, and identity of Military units, personnel, equipment, and supplies. Links to 77 of 130 data sources currently provided by the JTAV Program as well as undeveloped links to the other 53 data sources required by commanders in chief and joint task force commanders are to be integrated into the Global Combat Support System family of systems.

REPORT NO. D-2002-060. Management of Terminal Items at the Defense Logistics Agency. The overall objective was to evaluate the DLA management of terminal NSN items. This report, the first in a series, addressed DLA management of 43,603 of 138,822 terminal NSNs. We excluded the remaining 95,219 terminal NSNs from this audit because they had been identified for review, for reasons other than being terminal, in prior audits of DLA management of obsolete NSNs.

Item managers at DLA did not review terminal NSNs to determine whether the NSNs were obsolete. A statistical sample of 110 NSNs indicated that 31,623 of 43,603 terminal NSNs were obsolete and actions had not been taken to delete the NSNs from the DLA supply system. The sample also indicated that the remaining 11,980 NSNs were obsolete to Military Department requirements, but DLA had not determined whether there were NATO or foreign government requirements for the NSNs. As a result, DLA was incurring unnecessary supply management costs.

REPORT NO. D-2002-068. DoD International Personal Property Shipment Rates. This audit was initiated in response to a Defense Hotline allegation concerning household goods shipments originating in the Mediterranean region of Europe. The objectives were to: determine the validity of the allegation that DoD was incurring excessive costs on personal property shipments; evaluate the effectiveness of the codes of service and rates used; and determine whether procedures were in compliance with applicable regulations.

The allegation was not substantiated. We contacted the complainant who did not provide any substantive information to validate the allegation. We also contacted 18 freight forwarders involved in moving DoD household goods from Europe to the Continental U.S. and asked questions to determine the validity of the allegation. Of the 18 freight forwarders we

contacted, 17 stated that they were not aware of any third party company controlling most or all of the sealift capacity of U.S.-flag vessels sailing between Europe and the Continental U.S., and they had not experienced any problems booking container space on U.S.-flag vessels. Two of the freight forwarders contacted acknowledged that some companies purchased substantial amounts of container space and resold some of the space to freight forwarders that made DoD household goods shipments. However, those companies do not control all or most of the sealift capacity of U.S.-flag vessels. We also contacted four ocean carrier representatives to determine if their vessels operated at full capacity on voyages between the CONUS and Europe. The ocean carrier representatives' response was that container space on U.S.-flag vessels sailing from Europe was available on the majority of voyages, but depending on economic conditions in effect at the time of a voyage, times exist when a vessel will sail at maximum cargo capacity.

We could not evaluate the cost and operational effectiveness of using Code of Service 3 versus Code of Service 4 because information required for such an evaluation was not available.

OTHER

REPORT NO. D-2002-052. Meteorological and Oceanographic Support From Continental United States-Based Support Centers. This report is the sixth in a series evaluating the effectiveness and efficiency of DoD meteorological and oceanographic (METOC) support provided by the Military Departments to DoD and other governmental agencies. We evaluated METOC services and support provided by Navy and Air Force regional centers in the continental U.S. In addition, we evaluated Navy and Air Force numerical weather prediction (NWP) models and the feasibility of jointly developing METOC acquisition category III and below programs.

The Navy and the Air Force were providing Service-specific, and not overlapping, METOC support from regional centers in the continental U.S. In addition, the Air Force Weather reengineered training concept improved the quality of Air Force Weather forecasts and the efficiency of resources. The Navy and the Air Force use different Service-specific mesoscale NWP models despite the ability of those models to forecast similar atmospheric conditions. In addition, the Navy and the Air Force are in the process of separately developing next-generation mesoscale NWP models rather than developing a standard DoD mesoscale model. As a result, the Fleet Numerical Meteorology and Oceanography Center and the Air Force Weather Agency were not capable of providing adequate and uninterrupted backup for each other, including NWP support, should one center be unable to meet its operational requirements.

The Navy and the Air Force did not always review and comment on operational requirements documents for METOC acquisition category III and below programs. Specifically, of the 18 Navy and Air Force operational requirements documents for FY 2001 METOC acquisition category III and below programs, valued at $486.9 million, 9, valued at $190.5 million, had not been reviewed by both the Navy and the Air Force for potential joint involvement. As a result, the Navy and the Air Force might be acquiring METOC acquisition category III and below programs that could be supported by existing systems or technology. In addition, the Services might not be deriving benefits from jointly developing, funding, and managing METOC programs.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

Summary of the Office of Assistant Inspector General-Audit Participation on Management Advisory Teams

(Area Code 703 unless otherwise indicated)

Acquisition Deskbook Working Group (JOHN MELING, 604-9091)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Acquisition Initiatives Senior Steering Group (TOM GIMBLE, 604-8903)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Anti Terrorism Senior Steering Coordinating Committee (MAJ DAN SNY, 604-9190)
Lead Component: ASD SOLIC JCS J-3

Defense Environmental Safety and Occupational Health Policy Board
(BILL GALLAGHER, 604-9270)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

DoD Homeland Defense Working Groups
- Working Group 2: How DoD Will Interact with the Office of Homeland Security (DONALD BLOOMER, 604-8863)
- Working Group 4: Protection of U.S. from Airborne Threats (DENNIS PAYNE, 604-8907)
- Working Group 5: Recommended Improvements and Actions to Address and Overcome Existing Vulnerabilities (JOHN MELING, 604-9091)

Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Federal Financial Management Act Executive Working Group (PAUL GRANETTO, 604-9101)
Lead Component: Under Secretary of Defense (Comptroller)

Government Information Security Reform Act Information Assurance IPT
(WANDA SCOTT, 604-9049)
Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)

Inherently Governmental Integrated Process Team, DoD A-76 Overarching Policy IPT
(KENT SHAW, 604-9228)
Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense for Personnel and Readiness

Joint Contracting Pilot Program (TILGHMAN SCHRADEN, 604-9186)
Lead Component: Navy Inventory Control Point

Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance Relationship (HENRY KLEINKNECHT, 604-9324)
Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Rapid Improvement Team to Develop a DLA/Honeywell Strategic Alliance Relationship
(HENRY KLEINKNECHT, 604-9324)
Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))
Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Single Process Initiative Management Team (MIKE TULLY, 604-9347)
Lead Component: Defense Contract Management Agency

Task Force on International Agreements (DONALD BLOOMER, 604-8863)
Lead Component: Assistant Secretary of Defense (International Security Affairs)

Summary of the Office of Assistant Inspector General-Audit Participation in Special Audit/Evaluation Efforts

Audit Committees:

- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- Missile Defense Agency (DAVE VINCENT, 604-9109)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee (LAURA RAINEY, 604-8741)

Federal Audit Clearinghouse User Group (LAURA RAINEY, 604-8741)

Federal Audit Executive Council Multi-Agency Working Groups:

- Government Wide Financial Statements (RICHARD BIRD, 604-9102)

Joint Audit Planning Groups:

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (WAYNE MILLION, 604-9312)
- Contractor Oversight (KEITH WEST, 604-9202)
  - Quality Assurance Planning Group (KEITH WEST, 604-9202)
  - Purchase Card Planning Group (JOE DOYLE, 604-9349)
- Environment (BILL GALLAGHER, 604-9270)
- Finance and Accounting (PAUL GRANETTO, 604-9101)
- Health Care and Morale (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA SCOTT, 604-9049)
- Intelligence (CHARLES SANTONI, 604-9051)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

Single Audit "Orange Book" Update Project Team (JANET STERN, 604-8750)